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NETFLIX

COMPANY ANALYSIS

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Section 1: Case Study

1.1 Background and History

Netflix was co-founded in 1997 by Reed Hastings and Marc Randolph ("About Netflix"). Its goal was to use the internet to offer movies via DVD rentals, which was a new format at the time ("About Netflix"). In 1998, Netflix launched the first DVD rental and sales site called Netflix.com ("About Netflix"). By 1999, Netflix had started a subscription service by offering unlimited DVD rentals for a low monthly price ("About Netflix"). Between 2000 and 2005, Netflix debuted a personalized movie recommendation system that used Netflix members' ratings to correctly predict movie tastes for all Netflix members ("About Netflix"). It also made its initial public offering, and the number of users rose to 4.2 million ("About Netflix"). By the time it had been in business for 10 years, Netflix introduced its streaming service that enables customers to watch shows and movies on their personal devices ("About Netflix"). Netflix is continuously advancing its compatibility with devices like the Xbox 360, Blu-ray disc players, TV set-top boxes, PS3s, internet-connected TVs and other internet-connected devices, Apple devices, and the Nintendo Wii to stream shows and movies ("About Netflix").

In 2010-2011, Netflix launched its first service in Canada, followed by Latin America and the Caribbean. Gaining momentum with its success, Netflix then entered the European market, including the United Kingdom, Ireland, and other Nordic countries ("About Netflix"). A major development came in 2013 when Netflix debuted its first original programming, including *House of Cards, Hemlock Grove, Arrested Development,* and *Orange is the New Black,* which garnered 31 primetime nominations in 2014 ("About Netflix"). *House of Cards* won three

Primetime Emmy Awards, making Netflix the first TV network nominated for these awards ("About Netflix"). From 2013 to 2016, Netflix successfully launched worldwide to 190 countries, including the Netherlands, Austria, Belgium, France, Germany, Luxembourg, Switzerland, Australia, New Zealand, Japan, Italy, Spain, and Portugal ("About Netflix"). By this time, Netflix had reached about 50 million members globally and had released an original feature film called *Beasts of No Nation* and the hit series *Stranger Things* ("About Netflix"). In 2017, Netflix won its first Oscar for *The White Helmets* for Best Documentary Short Subject ("About Netflix"). Netflix currently has over 100 million users globally ("About Netflix"). Netflix also has signed producer deals with Shonda Rhimes and Jenji Kohan, and premiered its first tentpole action film, *Bright*, starring Will Smith ("About Netflix").

In 2018, Netflix won an Oscar for the Best Documentary Feature for *Icarus* ("About Netflix"). Netflix has signed deals with Ryan Murphy, Kenya Barris, and Jason Bateman ("About Netflix"). Netflix also launched international originals from Denmark (*The Rain*), India (*Sacred Games*), Mexico (*La Casa de las Flores*), and Spain (*La Casa de Papel, Elite*) ("About Netflix"). At the 2018 Primetime and Creative Arts Emmy Awards, Netflix received 112 nominations–the most nominations ever received ("About Netflix"). Netflix tied with HBO for the most wins by taking home 23 accolades for its series, including *Godless, Seven Seconds, GLOW*, and *Queer Eye* ("About Netflix"). Netflix is currently offering classic rom-coms and popular films like *The Kissing Booth, Set it Up, Sierra Burgess is a Loser, Nappily Ever After,* and *To All The Boys I've Loved Before*, which is one of Netflix's most-watched movies of all time ("About Netflix").

1.2 Organizational Mission

Netflix does not have a published mission statement. During the Dublin Founders conference in October 2011, Netflix's CEO Reed Hastings talked about Netflix's vision which includes: becoming the best global entertainment distribution service; licensing entertainment content around the world; creating markets that are accessible to filmmakers; and helping content creators around the world to find a global audience (Farfan).

Netflix did publish its brand promise, which many people consider its mission statement. It says: "We promise our customers stellar service, our suppliers a valuable partner, our investors the prospects of sustained profitable growth, and our employees the allure of huge impact" (Farfan). Netflix also published its company values, including judgement, productivity, creativity, intelligence, honesty, communication, selflessness, reliability, and passion (Farfan). Currently, Netflix's primary facility is in California, with a few international sites located in South Korea, Netherland, Brazil, Japan, and India. Netflix's stakeholders include its employees, management, customers, competitors, suppliers, and other shareholders ("About Netflix").

1.3 External Environment

Today's market is a highly competitive one, especially in the electronic media industry. Netflix is on an upward trend and is a leader in its industry ("How everything changed..."). It now has 130 million users, but that does not mean it is in an unbeatable position in this highly competitive market ("How everything changed..."). This also does not guarantee it to have 260 million users in the future because the industry is always in flux and the longevity of companies is always in question ("How everything changed..."). Netflix has always felt the challenge of an industry where high-tech changes and updates create a sense of urgency ("How everything changed..."). To offset expenses, it plans to increase prices from $8 to $14 per month for subscribers (ShenXiang, Par.13). With that in mind, Netflix needs to keep updating its products and technology to maintain its competitive advantage.

Remote Environment

The remote environment affects many aspects of the company, and the external environment can change the positive rising trend of the company. Economic, social, political, technological, and ecological factors can affect a company's success. Netflix may use more technology than its competitors to win customers, but it is still at the mercy of outside factors. Social factors also impact the remote environment that firms function in as societies change their beliefs, values, attitudes, opinions, and lifestyles. To keep its online market and increase online shopping, Netflix needs to develop its technology in ways that account for these outside factors.

As for the number of original localized works, these restricted works (local custom product offerings) can be successful globally. This localization takes a small, high-frequency, white glove approach that customizes product introductions and teaches services to users on a personal basis ("How everything changed..."). At the same time, Netflix has enough high-quality programing to meet the different viewing needs of different regions.

Industry Environment

For Netflix, it has been a year of expansion. It is already experimenting with content genres it has never produced before, such as reality shows (ShenXiang). Last year, Netflix did not have a single reality show, but this year it has 20. Many Netflix film projects are underway, and it has been working on new original series (ShenXiang). Netflix alerts people to new content in a variety of ways when it is "actionable" (Lidsky). This allows people to add new content to their watch lists and be alerted when there is new content.

Operating Environment

Netflix collaborates with partners around the world to produce shows like *The Bodyguard*, which was co-produced by the BBC (ShenXiang). Both platforms have stable content output. Netflix prioritizes users over competitors and is not concerned with its competitors' attempts. It does not believe they will negatively impact the company (ShenXiang). But there will be other players who can succeed. After all, there is still lots of room to grow in the industry ("How everything changed...").

1.4 Internal Environment

Netflix kicked off the year with a slew of nominations and awards for its original programming including two Golden Globes for *The Kominsky Method* and an Oscar for *Roma* (Feiner). This enabled further recognition for the Netflix brand and in turn strengthened its position in the media industry. Decisions like these to feature movies and shows from diverse directors have had a positive impact on the company's success, reputation, and growth into international markets.

Another factor of strength has been Reed Hastings' enforcement of his unique culture of freedom and responsibility at Netflix. He believes that if employees are given the freedom to make important decisions within the company, they are more likely to want the best for Netflix. Employees are encouraged to make bold decisions and are held accountable for those decisions.

In order for Netflix to trust its employees in the decision-making process, they are held to higher standards and must prove that they are much more than "adequate" in order to stay with the company (Goncalves). Overall, it is a tense and fear-driven environment that Hastings has continuously publicly defended as efficient and necessary for the future of the company, although it can negatively affect employee morale.

Netflix's weaknesses can be enhanced in its accumulation of debt. Marketing and content licensing are some of the main reasons for Netflix's increasing debt. Just this year, it has already offered $2 billion more in debt through unsecured notes in U.S. dollars and in Euros (Perez). Additional information on strengths, weaknesses, and finances can be found in section 3.2.

1.5 Generic Strategies

Generic strategies are core ideas that a firm uses to determine the best strategy for competing in the market. Netflix uses a broad differentiation strategy while building cost advantage where necessary. Differentiation is based on the idea of creating and marketing "unique products for varied customer groups" (Pearce). Netflix has differentiated itself by establishing itself as an ad-free, on-demand content provider instead of a live-streaming player. Netflix has continued to expand its original content and set its focus on producing high-quality movies and TV series. Offering original content has been a huge success for the company.

Along with its original content, Netflix offers a wide selection to satisfy diverse tastes. Selection gives competitive advantage to the company by offering movies and TV series that other streaming services do not. The data-mining technique that Netflix uses has allowed it to enjoy continued global growth by gaining expertise in the types of content its consumers prefer, what kinds of marketing strategies they respond to, and how Netflix can better personalize users' libraries (Brennan). Netflix offers additional languages, subtitles, and dubbing to improve its viewers' experiences across the globe. These additional features set Netflix apart from other competitors in the market and allows it to attract a wider audience.

1.6 Long-term Strategies

Although any for-profit business will likely list profitability as a long-term objective, Netflix has recently placed particular emphasis on expanding its content and reach. In this case, profitability and productivity are fairly interconnected, as evidenced by its 43% year-over-year increase (Poletti). Netflix has made its competitive advantage a top priority by ensuring employee loyalty and productivity through its employee relations. The core philosophy "people over process" stems deep into the culture of the business ("Netflix Culture"). Positive qualities including flexibility, collaboration, creativity, and stimulation are factors that lead this successful organization. Netflix offers a culture of freedom and responsibility. Beyond providing health and financial benefits, the company offers time away ("Work Life Philosophy"). There is no set vacation time and employees are free to make their own decisions regarding paid time off ("Work Life Philosophy"). This allows employees to work smarter, not harder. Parental leave is paid and flexible to ensure employees have the time they need to bond with their children ("Work Life Philosophy"). To attract and retain top performers, Netflix is leading the market with pay ("Work Life Philosophy"). Managers at the company use three core questions to make the best decisions: "1) What would this person get at other companies? 2) What would we be willing to do to keep them? 3) What would a replacement cost?" ("Work Life Philosophy").

Netflix offers an Employee Giving Program in which it matches contributions to charitable organizations its employees care about (“Work Life Philosophy”). Contributions are matched up to $10,000. Having a culture of “people over process” is a huge driver for employee productivity, retainment, and success.

Employee relations is not the only way that Netflix is leading the market. As detailed in the grand strategies section below, Netflix has begun to produce its own original content, as well as use technology that no other platform is using yet. The interactive experience that Netflix presented in *Black Mirror: Bandersnatch* gives it a competitive advantage over other streaming platforms like Hulu and Amazon Prime. In this way, Netflix is able to differentiate itself and potentially attract customers away from direct competitors.

1.7 Grand Strategies

Netflix is using three identifiable grand strategies. Netflix employed product development as a strategy initially, when it shifted away from DVD rentals by mail to streaming services, and it is using it now with the launch of original shows and movies. This time, Netflix is modifying its products and using the existing channels to keep current customers engaged. The benefits of offering Netflix originals to existing customers is that the company can provide original content to consumers who were frustrated with the lack of options on the platform.

The decision to produce its own content also falls under the strategy of backward vertical acquisition (Pearce). Netflix is able to increase its control not only by being the “retailer” for streaming content but now by being one of the suppliers, too. This does not necessarily allow Netflix to increase its profit margin, though. According to Investopedia, Netflix spent $13 billion dollars on content licensing and production in 2018. However, it is now focusing 85% of new spending on producing original content (Investopedia).

As recently as December 2018, Netflix has taken the position of using disruptive technology in its new *Black Mirror*: *Bandersnatch* release, which allows users to interact with the plot and choose their own storyline. This latest twist on existing technology provided Netflix a way to differentiate itself from competitors like Hulu and Amazon Prime, and to cement its competitive advantage by producing its own content.

1.8 Short-term Objectives

Short-term objectives are "measurable outcomes achievable or intended to be achieved in one year or less" (Pearce). Many of the quantifiable objectives that Netflix has set are long-term; however, it does have some short-term objectives to help achieve the long-term ones. While there are not measurable numbers available for all of them, some of the short-term objectives that Netflix is aiming to achieve this year are: hitting a 9% operating margin in Q1'19 (Netflix 2); reaching a 13% full-year operating margin for 2019, versus the 10% it had in 2018 (Netflix 2); increasing focus on and the amount of original content (Trefis Team); and increasing focus on stand-up comedy (Trefis Team).

1.9 Functional Tactics

Functional tactics are "detailed statements of the activities that will be used to achieve short-term objectives and establish competitive advantage" (Pearce). Though there are not many specific functional tactics that Netflix has said it will be employing in the coming year, there are a few. For example, to help achieve the objective of increasing focus on the amount of original content, Netflix plans to introduce a number of original shows and movies in the coming year, including *The Umbrella Academy*, *Triple Frontier*, *The Irishman*, *6 Underground*, and *The Politician* (Netflix). Netflix also plans to release returning seasons of *The Crown*, *13 Reasons Why*, *La Casa de Papel*, *Elite*, and *Stranger Things*, all of which are Netflix originals (Netflix). By doing this, Netflix hopes to increase its operating margin by bringing in more subscribers, thus increasing revenues. Netflix is also increasing subscription prices to fund more original content and to increase its operating margin. This year, Netflix is increasing the $7.99 per month subscription to $8.99, the $10.99 plan to $12.99, and the $13.99 plan to $15.99 (Blumenthal).

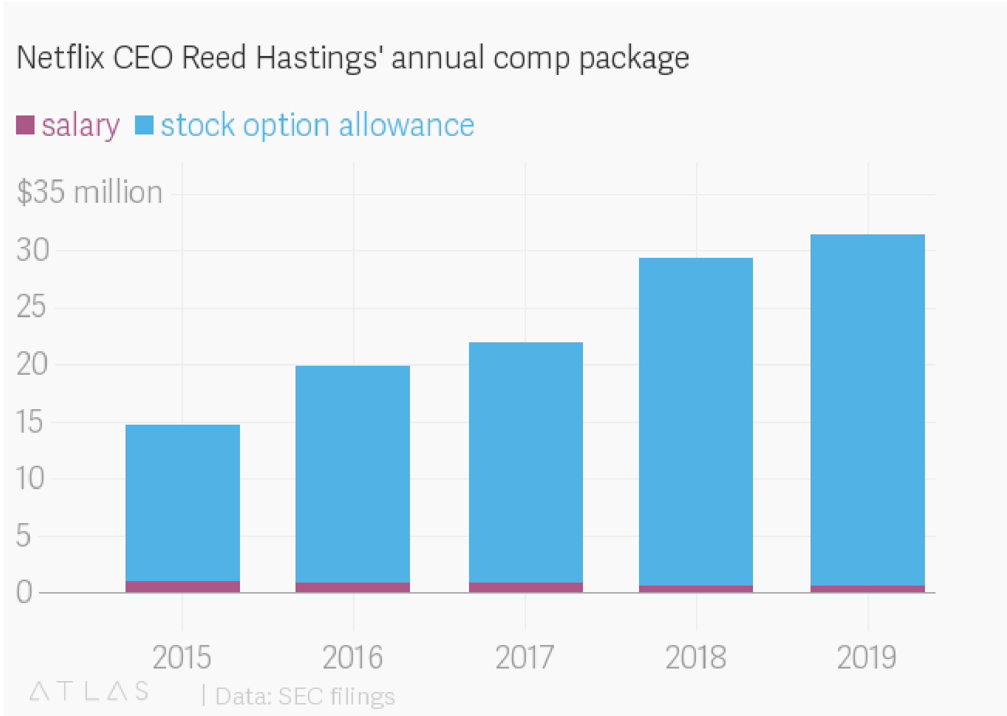
1.10 Policies and Strategic Execution

Companies utilize policies to implement strategies. Effective policies clearly communicate expectations and motivate personnel to act with minimal direction from management. Netflix uses flexible and adaptable methods to aid its strategy execution (Brightline). Netflix's policies grant freedom to employees, including its no vacation and flexible hours policies (Brightline). These unconventional guidelines empower employees to focus on strategy execution rather than rigid procedures (Brightline). Netflix expects employees to "keep [Netflix] nimble by minimizing complexity and finding time to simplify" (Brightline). The company also values cross-organization information sharing, which enables all employees to be directly involved in strategic decision-making.

While many of Netflix's policies empower its employees, some are less motivating and instill fear of termination. A *Wall Street Journal* story detailed the "harsh psychological conditions under which Netflix employees labor" (MacLellan). Many employees have a “constant fear of being fired” and one Korean employee “...said the culture encouraging harsh feedback at times reminded her of North Korea” (MacLellan). On its website, Netflix explains that “...we give adequate performers a generous severance package so that we can find a star for that position” (“Netflix Culture”). In order to create and maintain its “dream team,” Netflix has implemented policies and activities designed to weed out the less-than-stellar performers, including “sunshining,” the “keeper test,” and “postmortem” feedback (“Netflix Culture”; MacLellan). These activities publicly humiliate poorly-performing employees and discourage others from making the same mistakes (MacLellan). Despite the mixture of motivating and demotivating practices, Netflix’s policies have created an overall culture of trust, respect, and collaboration—all of which contribute to an innovative and strategically agile organization.

1.11 Executive Bonus Compensation Plans

Netflix primarily uses stock options as its form of bonus compensation for top executives. Stock options are “the right, or ‘option,’ to purchase company stock at a fixed price at some future date” (Pearce). In fact, this bonus compensation plan makes up the majority of the two top-earners’ compensation. This year, it is projected that Netflix’s CEO Reed Hastings will receive a salary of $0.7 million and a stock option allowance of $30.8 million (Griswold). Netflix’s Chief Content Officer Ted Sarandos is expected to receive a salary of $18 million and a stock option allowance of $13.5 million (Griswold). Sarandos used to receive part of his compensation as a performance-based bonus, but that was eliminated in late 2017 (Griswold). More detailed breakdowns of Hastings’ and Sarandos’ salaries for this year and the past few years are shown on the following page.


Netflix CEO Reed Hastings' annual comp package
salary
stock option allowance
$35 million
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25
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15
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2015
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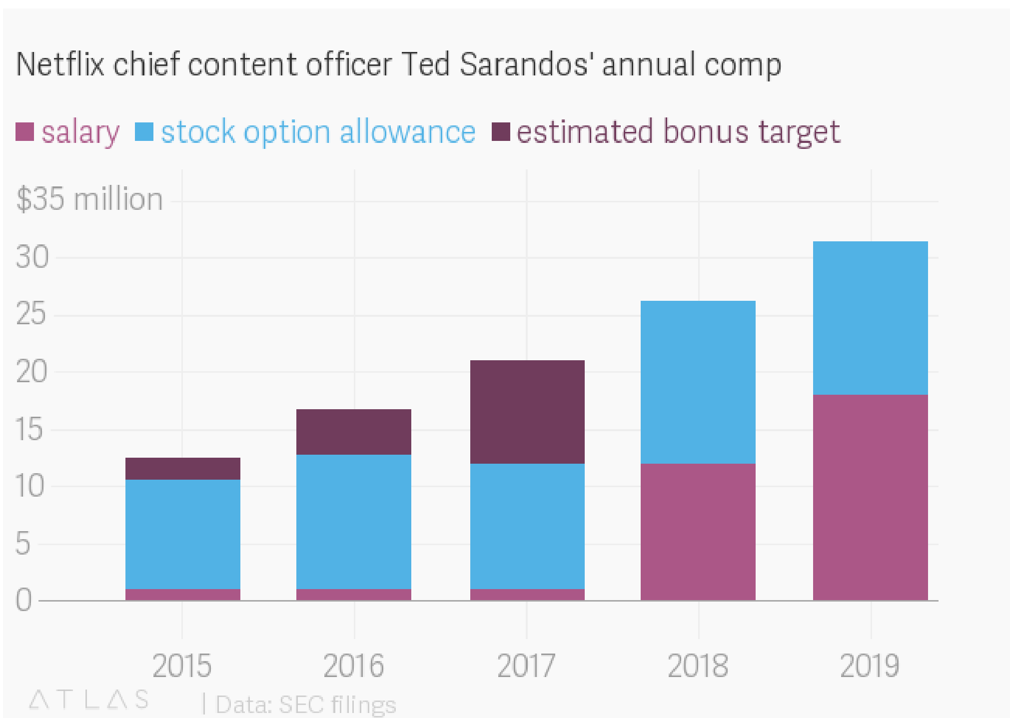
| Data: SEC filings


Netflix chief content officer Ted Sarandos' annual comp
salary
stock option allowance
estimated bonus target
$35 million
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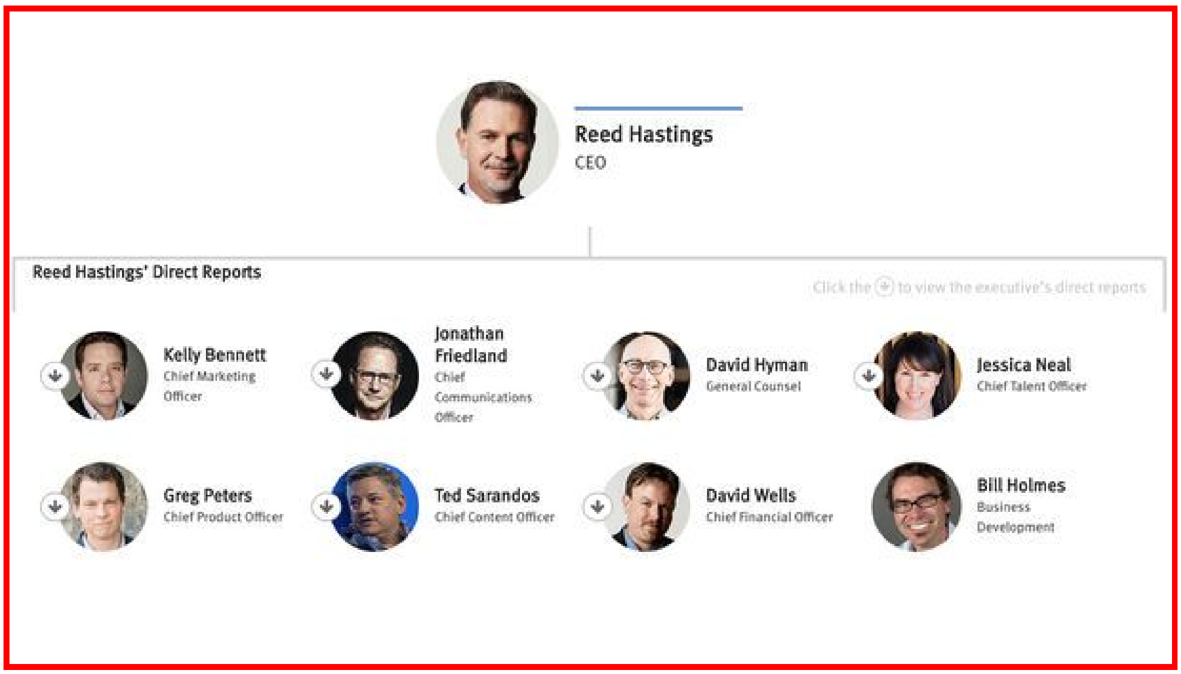
| Data: SEC filings

1.12 Organizational Structure, Culture, and Leadership

Structure

Netflix has a functional organizational structure. Its business tasks are divided into different functional groups such as finance, marketing, business development, and communications (TheInformation.com). Netflix does not utilize typical top-down managerial governance; rather, employees are empowered to make decisions. This structure is beneficial because Netflix has narrow product offerings and has been expanding rapidly into new markets and gaining new subscribers. Netflix has needed to acquire specialized employees in order to stay ahead of the curve in the industry. This is where managers like the Chief Product Officer and Chief Content Officer have come into play, demonstrating the importance of having specialized areas of focus within the organization in order to deliver high-quality content.



Source: Dotan, Tom, The Information.

Culture

According to Netflix's website, the five distinguishing features of the company's culture are as follows: "encourage independent decision-making by employees; share information openly, broadly, and deliberately; are extraordinarily candid with each other; keep only our highly effective people; and avoid rules" ("Netflix Culture"). Its guiding philosophy is prioritizing "people over process," and it focuses much attention on building and maintaining its "dream team" ("Netflix Culture"). Netflix claims its atypical culture makes it a "more flexible, fun, stimulating, creative, collaborative, and successful organization" ("Netflix Culture"). According to Patty McCord, the former Chief Talent Officer, "...if you create a clear expectation of responsible behavior, most employees will comply" (McCord). The leniency that Netflix gives its employees in order to promote freedom of thought and innovation tends to foster trust and respect. However, Netflix's employee evaluation measures tend to instill fear rather than motivation in many employees, which could undermine the positive aspects of the culture.

Leadership

Netflix has strong expectations of its leadership to serve as role models of the company's policies and values. Managers must "model and reward behavior that aligns with [the organization's] goals" as well as modeling innovation (McCord). Netflix's leaders foster high-level strategy discussions and are open to new ideas (Kanowitz). Managers must also employ different leadership strategies for subgroups of employees (McCord).

1.13 Strategic Controls

Netflix has evolved from a DVD mail service to an online streaming service used by millions globally. Its strategy of vertical integration has been a key part of its growth. By having a hand in all aspects of production, Netflix has needed to employ the strategic control of surveillance to monitor factors inside and outside the firm that can impact its business. Netflix observes what its competitors and suppliers (television networks like HBO) are doing (Trefis Team). This is an important strategy to employ. Netflix has grown so much that it needs to be aware of everything happening in its surroundings to assure that it remains an industry leader.

The operational control system that Netflix uses is a dashboard approach where all of its user information is located in one place in order for it to be accessible to anyone in the company. This approach has led Netflix to have personalized content suggestions for each user while also providing Netflix with data on customer preferences. “Netflix meticulously categorizes and tags each show or movie on its platform. It has established over 75,000 unique micro-genres to classify its content library” (Opheliac). It is this type of data that has set Netflix apart from its competitors (Opheliac). This system has been in place since Netflix’s inception. A Harvard article states that “...the final key aspect of Netflix’s strategy in [its] early years that set [it] up for success was [its] focus on technology, specifically website and movie personalization. By building a product that required users to place orders through the website, Netflix primed [its] customers to view the website as a key component to their Netflix account" (Gloria). Netflix’s use of dashboards has tremendously improved customer satisfaction.

1.14 Innovation and Entrepreneurship

Netflix employs a disruptive type of innovation that has four main ideas: think big, start small, fail quickly, and scale fast (Mui). Through the years, Netflix has incorporated these four ideas into its innovative decision-making process. The first time that Netflix used this innovation model was when it shifted from DVD mailing to streaming, as this shift required Netflix to think bigger than just mail and to get into the internet streaming business. Netflix also started small in innovation when it came to creating its own content, since it had to consider the cost and ways of differentiating itself from its competitors. Even though Netflix is widely known as a successful and innovative company, it has also experienced failure. But at Netflix, employees learned to fail fast and move on. While failing can be hard to determine, so can success. That is why Reed Hastings instituted the innovation model of scaling fast. Once Netflix found something that made it successful, it stuck to it and innovated further.

Netflix has always relied on the strategy of being a disruptive entrepreneur, and the company is best known for its nature of being fearless and competitive (Stern). There is no better example of this then Netflix being solely responsible for Blockbuster going out of business. Netflix fearlessly dove into streaming and removed late fees from its business model, which caused consumers to abandon Blockbuster in favor of Netflix. Netflix continued to model the disruptive entrepreneur methodology by constantly looking for new ways to evolve. It is reported that it is looking into buying television rights to continue disrupting the industry, this time focusing on monthly television subscriptions like cable (Mui). Netflix has shown time and time again that it is fearless in attacking established businesses to better serve its customers.

Section 2: Identification of Key Strategic Issues/Problems

Netflix is facing three key strategic issues as the competition for market share in online streaming becomes more fierce. The first issue is **increased competition** as more online streaming services are being offered, and the market is becoming more saturated. The second issue is **maintaining new subscriber growth**, and lastly, **costs of content are increasing exponentially** as production companies realize how much money there is to be made.

Competition

Netflix was known as an early entrant, first into the mail subscription movie rental service and then into the online streaming industry. Since then, Netflix's market share has been diminishing, as customers are forced to choose between an ever-increasing number of streaming services, all of which offer different content selections. Facing outside pressures, Netflix must continue to differentiate itself by offering different content than its competitors. It faces pressure from consumers to offer more content, all while keeping its prices even with competitors.

Subscriber Growth

Netflix has chosen market development as a strategy to increase its number of subscribers, but with so many subscription options for consumers to choose from, Netflix is facing a crisis in the form of a lack of new users. Although there were an estimated 130 million subscribers in 2018 (Statista), the increasing popularity of customers sharing accounts to save money leaves much room for error in user estimations. Additionally, the Millennial generation is having fewer kids than previous generations (Coughlin), making it difficult for Netflix to maintain the same level of user growth over the coming years.

Content Costs

The third key strategic issue that Netflix is facing is arguably the most serious if its subscription numbers do not substantially increase. In 2018, Netflix spent $12 billion on content and is expected to increase its spending by $3 billion this year (Spangler). Netflix is already paying increasing fees to keep the content it currently has, such as spending $1 million to keep the licensing to the TV show *Friends*. With its quest to produce its own content, it is estimated that Netflix will spend up to 85% of its budget on original content alone. This means that it will either have to increase its budget to keep the licenses to the content its already offers or decide to offer only original content. Both of these options have their downsides, so Netflix will have to choose between a higher debt or a huge loss of customers.

Section 3: Analysis and Evaluation

3.1 External Environment

Netflix's external environment must be addressed and considered in order for it to succeed and compete in an environment that is becoming both popular and crowded. By analyzing its environment, Netflix can determine what opportunities and threats are present.

Remote Environment

Although Netflix has become a successful company and has evolved dramatically from mail-to-order DVDs, there are still several factors that affect it. They are discussed as follows:

External Environment: Remote Environment	
Political	Following Facebook's issues with hacking, consumers are becoming more skeptical and distrustful of data, and especially dislike being profiled by companies based on their usage (Westcott). This could be an issue for Netflix, considering that a lot of the personalized content it offers is attained by data. An advantage that Netflix holds is that its data collection is not sold or used for advertising, and Netflix uses the data to enhance the consumer experience.
Social	Overall, consumers are shifting from traditional TV content to digital and streamed content, which greatly benefits Netflix (Granados). Netflix is the face of this shift, and a great example is the phrase "Netflix and Chill," which is used when people stream videos. With more and more people deciding to stream content, Netflix's market is likely to grow as well.

Economical	Netflix was made popular by its lenient pricing, which is one of the ways it competed with Blockbuster, having no late fees and the ability to return DVDs at the consumer's convenience. This method was a great strategy when the economy was in recession and when Netflix was growing. After dominating Blockbuster, Netflix is now competing with expensive cable rates. With the economy improving and thriving, Netflix has recently decided to increase its monthly memberships by $1-2 (Disis & Pallotta). The increase in price can be seen as a threat because for many years, customers were used to a steady and consistent price.
Technological	Technology is constantly evolving, which could be seen as an opportunity or threat depending on how Netflix plans to integrate it. An opportunity for Netflix is the growth of the internet. The increase in internet use has led to 5G, which will be an impactful development. With "faster data-transfer speeds, lower latency, and improved IoT connections, 5G will affect almost all aspects of the media & entertainment sector" (Westcott). 5G promises to increase the content delivery speed which will help Netflix's delivery to customers.

Industry Environment

The media and entertainment industry that Netflix operates in is comprised of the production and distribution of motion pictures, television programs, streaming content, and broadcasts (Nead). This means that Netflix is competing with cable, entertainment, media, streaming, internet videos, and mass media companies in one form or another. With streaming services growing, Netflix's direct competitors are Hulu, HBO, and Amazon Prime Video (Granados). These companies offer the same services of streaming content that is, or at one point was, on traditional television broadcasts. By creating its own content, companies like Warner Bros, Disney, and NBC Universal are now competitors as well (Disis & Pallotta). Since Netflix started producing original content, its competitors are combating this by either pulling their content from Netflix or creating their own streaming services, or both (Westcott). A deterrent of companies entering the streaming service is the saturation of the market and the impact it will have on consumers. According to the 2019 Media & Entertainment Industry Outlook by Deloitte, "[Consumers are] realizing that they need several subscriptions to satisfy their content-viewing preferences. As a result, we may be entering a time of 'consumer subscription fatigue'" (Westcott). If consumers are overwhelmed by their choices and need to satisfy all of their viewing preferences, they might just shift back to traditional television to assure that all their content is in one location and easily accessible, which is a move that would threaten Netflix.

Operating Environment

Netflix established its competitive positioning when it first competed with Blockbuster. Netflix has shown that it cares about its customers' preferences, especially from a content perspective. That is why Netflix paid a hefty price to keep *Friends* in its library and why it continues to bring back popular shows that have been removed by other companies. Netflix does not use ads, even though it could easily tailor ads to its customers' preferences based on the data it has on them. Netflix's relationship with its suppliers is an interesting one to assess since it produces original content. Netflix is its own supplier, but it also offers content from competitors.

An example of Netflix's relationship with its suppliers is the "content pullbacks by media houses (such as Disney removing its content from Netflix and launching its own streaming service in 2019)" that have caused Netflix to spend 85% of its $8 billion content investment in 2018 to create original content (Westcott). This demonstrates that Netflix does not want to be solely reliant on its suppliers, especially when they are becoming more like competitors than partners. Netflix's expenditures in content creation have created financial issues. By "frequently tapping the debt markets on several recent occasions, the price hike could help ease concerns with a growing deficit on free cash flow" (Disis & Pallotta). An increase in subscriptions will aid in keeping investors happy, enabling more content to be created.

3.2 Internal Environment

Resource-based view "is a method of analyzing and identifying a firm's strategic advantages based on examining its distinct combination of assets, skills, capabilities, and intangibles as an organization" (Pearce). Exhibit 3.2A includes the tangible assets, intangible assets, and organizational capabilities unique to Netflix, while Exhibit 3.2B analyzes each asset and capability according to its value and isolating mechanism. Comparison between the results will help determine which resources help create a competitive advantage over major competitors.

Resource-Based View		
Tangible Assets	**Intangible Assets**	**Organizational Capability**
• DVDs • DVD equipment • CDN servers	• First movers advantage (FMA) • Bargaining power • International presence • Reputation • Employee	• Content delivery network (CDN) • Company culture • Leadership

	morale/turnover ● The "Netflix" brand ● Award-winning content	
Figure 3.2A		

Resource Value					Isolating Mechanisms			
Asset	**Customer Needs**	**Scarcity**	**Appropriability**	**Durability**	**Physically Unique**	**Path Dependence**	**Causal Ambiguity**	**Economic Deterrence (Imitation)**
Tangible:								
DVDS	Yes	Yes	No	No	No	No	No	Easily
DVD operations equipment	Yes	No	No	No	No	No	Yes	Possibly
CDN servers	Yes	Yes	Yes	Yes	No	Yes	No	Yes
Intangible:								
First movers advantage (FMA)	Yes	Yes	Partially	No	Yes	Yes	Yes	Cannot
Bargaining power	Yes	Yes	Partially	No	No	Yes	Partially	Cannot
International presence	Yes	Yes	Yes	Partially	Partially	Yes	Partially	Hard
Reputation	Yes	No	Yes	Partially	Yes	Yes	No	Cannot
Employee morale/turnover	Yes	No	Yes	Yes	Partially	No	No	Hard
The "Netflix" brand	No	Yes	Yes	Partially	Yes	Yes	No	Hard
Content	Yes	No	Partially	Partially	Partially	Yes	No	Possibly

Organizational Capability:								
IT	Yes	No	Yes	Partially	No	Yes	Yes	Hard
Company culture	Yes	Yes	No	Yes	Yes	Yes	No	Possibly
Leadership	Yes	Yes	No	Partially	Yes	Yes	No	Possibly

Figure 3.2B

From the analysis, we can determine that tangible assets and organizational capabilities create the most advantageous resources for the company rather than the majority of the tangible assets. Nevertheless, it is important to recognize that many assets and capabilities have partial votes, which can negatively affect the company in the future if Netflix does not innovate and consider alternatives to stay ahead of the competition.

Value Chain Analysis

The following value chain analysis will help determine the value each activity within the business has and whether or not it creates a competitive advantage over competitors. The value chain analysis splits these activities into two major sections called primary and secondary activities. Within each section, there are subcategories that amplify the value of each process and help pinpoint Netflix's strengths and weaknesses.

Primary Activities

Primary activities include inbound logistics, operations, outbound logistics, marketing and sales, service, and procurement.

Inbound logistics: By allowing its consumers to access its database of movies and shows in a easy-to-use menu, Netflix offers an array of content readily available at any time and place.

Operations: Netflix's content delivery network (CDN) has been gradually improved to better serve its customers and provide them with the best quality streaming worldwide. Netflix switched from having its own servers to AWS (Amazon Web Services), which proved to be the most cost-effective way to support the massive growth they have had in the past few years. AWS allows Netflix to have all of its content in the cloud. Although Netflix relies on AWS as its main server, it has multiple servers scattered around the world so that subscribers can receive the same quality of streaming internationally (CED). Netflix's machine learning structure optimizes video and audio encoding and adaptive bitrate selection for a superior streaming service for its 139 million members streaming on half a billion devices (Cool).

Outbound logistics: Early in its streaming journey, Netflix partnered with internet providers like Comcast and consumer electronic companies to stream content effectively and efficiently on various devices ("About Netflix"). By doing so, Netflix was able to reach more people on smartphones, laptops, desktops, smart TVs and other devices with internet access.

Marketing & Sales: Netflix has the reputation of being the first successful streaming service provider in the world. The total number of subscribers worldwide during 2019's first quarter was 158.47 million ("Number of..."). Along with this reputation, the company has also earned itself a position in the urban dictionary for the commonly used phrase "Netflix and Chill" (Roose). Netflix's original content has been securing more followers for its numerous awards and attractive trailers. Nonetheless, the expenses from producing and marketing original shows and movies has dug Netflix deep into debt. In 2018, Netflix spent over $1.8 billion on advertising, which was an increase of 65% from the previous year, and $12 billion on content with a 35% increase from 2017 (Weprin).

Service: Social media has been a powerful means of bringing knowledge, curiosity, assistance, and interaction among Netflix's current and future subscribers. Not only does it work for marketing, but it also helps Netflix communicate in an authentic and interactive way with the public for feedback on its services (Wilhelm-Volpi).

Procurement: One of Netflix's major advantages over its competitors is the bargaining power, freedom, and audacity to purchase licenses on "risky" content. Through its current "cost-plus" licensing agreements with production companies, Netflix has been able to purchase ownership rights of programming at a higher price than television networks. The benefit of this bargaining technique is that production companies receive a larger sum of money up front and Netflix acquires ownership to shows that have a possibility of becoming popular and amounting to larger profits (Castillo). Since Netflix is not restricted on inappropriate content, it can easily purchase material that would otherwise not be readily available to the public.

Supporting Activities

Supporting activities include general administration, human resource management, research, technology, and systems development.

General administration: The environment that revolves around Netflix's success is one of innovation and risk-taking. Through this culture, Netflix has been able to identify new product market opportunities and attract independent film and TV directors for its original content.

Human resource management: Netflix's culture is one of freedom, responsibility, and transparency that Hastings deemed "the only sustainable competitive advantage he has complete control over" (Putter). Netflix only hires the best employees for its dream team and has implemented activities that eliminate employees that do not meet its values of judgement, communication, curiosity, courage, passion, selflessness, innovation, inclusion, integrity, and impact ("Netflix Culture"). The activities include "sunshining," "keeper tests," and "postmortem" feedback. Sunshining and postmortem feedback are public humiliations of employees who made mistakes or have been fired so that their peers will not commit the same errors (MacLellan). The keeper test was created by Patty McCord, Netflix's former Chief Talent Officer. She encouraged Hastings to only keep the best performers, but in 2011, she was fired after she was given the test ("Netflix's Culture of Fear"). Although the involuntary turnover rate is around 8% (a bit higher than the average of 6%), the severance package is a generous 4 months of full pay, putting Netflix on top of the competition (Putter; "Netflix Culture").

Research, technology, & systems development: Recommendation algorithms are the key element of Netflix's success through personalization. By collecting and analyzing data recovered from user streaming, Netflix has been able to provide personalized video content recommendations to each user. Also, content valuation (the process of identifying characteristics that make content successful) has played a vital role in the purchase of content and the success of the company overall ("What is Netflix Research?"). Netflix's software system is composed of 500 microservers that are separate from each other and function on their own. When these microservers need to interact, an application programming interface (API) is utilized. By having this many microservers, it allows Netflix to provide its service at a faster pace (CED).

Financial Analysis

Based on the information from figure 3.2C, Netflix's financial position is barely balancing. Netflix has many strengths, but most of those can become irrelevant with the incoming competition unless Netflix continues to innovate in content and business management. The major weakness we see with Netflix's financials are related to its ever growing debt. In Liquidity, we see Netflix is starting to have trouble paying off its debt, which is related to Leverage where 63% of its assets have been funded by borrowing. Furthermore, that debt is not creating additional equity for the company. Although debt has been dragging Netflix down and investors are becoming more nervous about it, it still maintains hope with its Activity financials. Netflix knows how to manage its assets and fixed assets to get a return in profit and sales. Unfortunately, there wasn't enough information provided on Balance sheets of Income statements to calculate previous year's account receivables turnover, but with the data given from this first quarter and the industry average, we can assess that Netflix falls behind the industry average for debt collection (Netflix Inc. - Financials).

Return on assets and investments have shown potential, they might not reach industry average, but they have maintained a steady growth. Management needs to focus more on returns if it plans to compete with Broadcasting and TV giants.

Financial Position							
Ratios and Working Capital	**2015**	**2016**	**2017**	**2018**	**2019**	**Industry Average**	**Interpretation**
Liquidity:							
Current	1.54	1.25	1.40	1.49	.61	1.46	Netflix's ability to pay-off its short-term debt is

							below average and has been decreasing over time. This means it is currently in more debt since its current assets are not enough to pay its current liabilities.
Quick	.65	.37	.51	.58	.49	2.57	Netflix's ability to pay current liabilities is significantly below average. Its historical data has been a rollercoaster but it has always maintained itself under 1. This can be a red flag for investors depending on the current industry average.
Leverage:							
Debt assets	.57	.58	.62	.65	.63	.28	*Industry Average: Based on six broadcasting companies (Walt Disney, CBS, AT&T, Comcast, Charter Communications, and Thomson Reuters). Currently, 63% of Netflix's assets are funded by borrowing.
Debt equity	1.07	1.26	1.81	1.98	1.81	.39	Netflix's debt to equity ratio is at higher risk than the industry average. This means its financial leverage is not as strong.
Equity Multiplier	4.5	5.1	5.3	4.9	4.7	1.04	Netflix uses over one-fourth of its equity to finance its assets versus using more debt.
Activity:							
Asset turnover	.79	.74	.71	.70	.70	.50	Netflix's assets have been generating higher sales and revenue than the industry average. This means it has been efficiently using its assets.
Fixed asset ratio	39	35.2	36.6	37.76	71.1	9	*Industry Average: Based solely on two other competitors from the industry (Walt Disney and Twenty-First Century Fox). In comparison to a couple of its competitors, Netflix has been generating much higher sales from its property, plant, and equipment.
Accounts receivable turnover	No data	No data	No data	No data	7.18	9.27	Solely based on 2019 Q1, Netflix seems to be below industry average when it comes to collecting its debts from credits given. This can be a reason why Netflix has had to collect so much debt since it hasn't been very efficient in collecting much of its receivables to turn into cash for company investment.
Profitability:							
ROA	1.25	1.54	3.35	5.26	5.10	10.61	Netflix's return on assets has been increasing through the years, but it is not doing as well as the overall industry. Its profitability relative to its assets doesn't meet industry standards, therefore

							management is lacking to demonstrate efficiency.
ROI	6.84	7.42	10.30	12.27	7.17	13.75	Netflix's return on investments in the past year have shown improvement and are close to the industry average. This indicates that Netflix has achieved elevated gains based on cost of investments versus investments.
ROE	5.86	7.56	17.24	25.81	24.75	19.09	Netflix has achieved a higher profit from its equity in comparison to its industry average.
Working-capital position	3.56	7.76	5.31	4.93	.61	1.04	Netflix's financial strength has been another roller coaster. It has grown but also fallen throughout the years. Currently, it seems like a good bet for investors and there is also a possibility for growth.
							Figure 3.2C

Sources: "AT&T Inc (NYSE:ATT) Equity-to-Asset: 0.35 (As of Dec. 2018) ."
"CBS Corp (NYSE:CBS) Equity-to-Asset: 0.13 (As of Dec. 2018)."
"Charter Communications Inc (NAS:CHTR) Equity-to-Asset: 0.25 (As of Dec. 2018) ."
"Comcast Corp (NAS:CMCSA) Equity-to-Asset: 0.29 (As of Dec. 2018) ."
Dybek, "Netflix Inc. (NFLX) | Property, Plant and Equipment."
Dybek, "Twenty-First Century Fox Inc. | Long-Term (Investment) Activity."
Dybek, "Walt Disney Co. | Long-Term (Investment) Activity."
"Netflix Current Ratio 2006-2019|NFLX."
"Netflix (NFLX) Balance Sheet."
"Netflix Inc (NFLX.O) Financials."
"The Walt Disney Co (NYSE:DIS) LT-Debt-to-Total-Asset: 0.17 (As of Dec. 2018) ."
"Thomson Reuters Corp (NYSE:TRI) Equity-to-Asset: 0.54 (As of Dec. 2018)."

3.3 SWOT Analysis

Strengths	Weaknesses
• Generating original award-winning content • International presence • Reputation • Brand name • Leadership • Company culture • Content Delivery Network (CDN)	• Employee turnover is higher than most and severance pay is excessive • Increased debt on content • Marketing spending • Reliant on Amazon Web Services for cloud storage
Opportunities	**Threats**

• 5G internet • Data Privacy (Netflix's use) • Market shift towards streaming services	• Increase in price • Data privacy (consumers' concerns) • Lots of competitors in all phases from streaming to content creation • Consumer Subscription Fatigue
	Figure 3.2D

3.4 Organizational Mission

A company mission statement is a broadly outlined but continuing statement of a firm's intent (Pearce). Its distinctive commitment sets a company apart from others and recognizes the latitude of its operations in product, market, and technology terms (Pearce). While Netflix's mission statement is not published, Reed Hastings talked about Netflix's vision during a conference in 2011 (Farfan). Netflix has achieved its vision because it currently exists in over 190 countries, has over 100 million global users, has licensing content around the world, provides markets that are accessible to filmmakers, and enables international filmmakers to reach global audiences ("About Netflix"). It is important for Netflix to formulate its vision into a mission statement because it is the foundation of any organization. A strong mission statement serves as a guide for all of the company's decision-making that includes shareholders, leaders, and employees. Being a leader in the technology industry, it is crucial for Netflix to have a strong mission statement to guide the company's actions and to be an example for other companies.

3.5 Generic Strategy

Netflix implements a broad differentiation strategy and builds cost advantage where possible. Overall, the company has had success with its strategy to gain a competitive advantage over its competitors and produce the desired results.

Cost Leadership

Netflix does not have the advantages and resources needed to support and sustain cost leadership among its competitors. The company's budget is set too high to provide a cost lower than its competitors, if Netflix wants to earn a profit. Wall Street analysts estimate a 25% increase on content spending from last year, which amounts to $15 billion (Spangler). This means that in order to pursue cost leadership, Netflix would have to vastly reduce its budget for content, which would likely drive away many customers since a reduced budget would mean Netflix would not be able to purchase as many content licenses.

Differentiation

Netflix's recent decision to focus on content is related to the growing number of competitors in the market. Companies such as Disney, Amazon, Hulu, and Vudu are all in pursuit of a successful, growing, video-on-demand service, leading Netflix to make a strategic decision to pursue action in order to stand out from the competition. Producing original content to differentiate itself has led to success. In a research study by Morgan Stanley, "39% of U.S. consumers said that Netflix offers the best original programming compared with other subscription video services" (Grant). Viewership of Netflix's original series has been steadily rising, but the majority of viewers are streaming licensed content, making this strong emphasis on original content a bit of a disadvantage. Licensed content accounts for 63% of viewing hours, and Netflix Originals account for 37% (Trainer). Despite the number of viewers streaming licensed content, it is the original content that typically drives subscriptions (Morris).

Speed-Based Strategies

Netflix is a great example of making speed-based strategic choices. The company has expanded to over 190 countries in just 7 years (Brennan). Beyond the fast, global expansion, Netflix is delivering the driving force that consumers are after: faster streaming and a wider variety of options. Unlike cable, Netflix offers an entire season with its new content all at once, giving consumers the opportunity to do what they love: binge-watch.

Market Focus

Netflix is testing a geographic segmentation approach by offering different subscription plans in international markets. The company is testing the idea of half-priced, mobile-only subscriptions and shorter subscription periods in select countries in Asia, based on customer demands (Ramachandran). Netflix originally tested the idea in Malaysia and is now offering it in India (Ramachandran). This market focus is allowing the company to target customers in different geographic areas where its traditional strategies are not otherwise successful. India has inexpensive data plans which makes for a perfect market to test mobile-only subscriptions for a competitive price (Ramachandran).

From our research, we conclude that Netflix's emphasis on differentiation, content, speed, and market focus has provided the company with a competitive advantage in the online streaming industry. Although it has experienced rapid growth in its market expansion and product development, Netflix is poised to sustain this growth, provided it can continue to adapt to new technological developments and the constantly changing demands of its customers.

3.6 Long-term Objectives

Based on our analysis, Netflix's two main long-term objectives of employee development and technological leadership are two of its biggest strengths. Netflix's objective to cultivate and maintain top performers gives it a competitive advantage in leading the industry with original content and customer loyalty. Netflix offers many benefits that its competitors do not, which gives it loyal employees who feel a sense of empowerment and ownership. Netflix's objective to attract the best talent means that it is working to stay one step ahead of its competitors.

This can also be seen in Netflix's objective of technological leadership. The interactive technology used in *Black Mirror: Bandersnatch* was the first of its kind to be used in streaming. This technology drew curiosity, approval, and some criticism, but Netflix succeeded in gaining the attention of the industry. Netflix is a trendsetter. It revolutionized the movie rental business with mail-order content and was the first streaming service to produce its own content. This shows that Netflix's narrow focus on these two main long-term objectives are paying off.

3.7 Grand Strategies

According to the Grand Strategy Selection Matrix, Netflix is employing strategies in Quadrant I and Quadrant III. Quadrant I includes vertical integration, which is the strategy that Netflix has chosen by producing its own content. The increase in original content allows Netflix greater control over costs and the ability to overcome the weakness of being beholden to production companies for content licenses at increasingly high prices.

Netflix's expansion of original content is pursuant to product development. It is offering new products to existing customers, allowing it to maximize its strengths. Netflix's ability to produce its own creative content allows it to capitalize on its strengths, which is how Quadrant III is described. Using the Model of Grand Strategy Clusters, both of these strategies are in Quadrant I, which is defined by Rapid Market Growth and Strong Competitive Positioning.

3.8 Short-term Objectives

In the short-term, Netflix hopes to hit a 9% operating margin in Q1'19 (Netflix), reach a 13% full-year operating margin for 2019 (Netflix), increase focus on and amount of original content (Trefis Team), and increase focus on stand-up comedy (Trefis Team). Given that two of Netflix's main long-term goals are to increase profits and the amount of original content, these short-term objectives seem to be in pretty close alignment. However, some of these objectives are not very specific and do not possess all the qualities of short-term objectives. "Short-term objectives are more consistent when they clearly state *what* is to be accomplished, *when* it will be accomplished, and *how* its accomplishment will be *measured*" (Pearce). While the objectives pertaining to operating margins are measurable, the objectives that pertain to content are not. It is a good idea for Netflix to focus on increasing the amount of original content for its long-term strategies; however, it would be helpful to create a measurable way to make sure it is meeting its objectives in the short-term and that it is producing the amount and quality of content it desires.

3.9 Functional Tactics

Netflix already has a planned set of original movies and shows that will be released this year. The release of these shows will help Netflix reach the objective of increasing the amount of original content. Since Netflix has a list of specific shows that it plans on releasing this year, this is a good functional tactic because it is specific, it has a time horizon, and there are specific participants chosen to develop them (Pearson).

Netflix also has specific plans to increase prices this year, which is a functional tactic to help it reach its operating margin goals, as it will be bringing in more revenue. This is also a good functional tactic as it is specific and has a time horizon. This price increase can also help Netflix fund more original content, helping it achieve multiple short-term objectives at once.

As for increasing the focus on stand-up comedy shows, there were not many functional tactics that could be found, as most of the original shows Netflix plans on producing this year are not stand-up shows. If Netflix wants this to be a short-term goal, it needs to develop some specific functional tactics to meet that goal.

3.10 Policies and Strategic Execution

Overall, the policies that Netflix uses to aid in strategy execution empower its employees to act. Its guidelines are flexible and adaptable, such as its vacation and hours policies; how it simplifies processes; and how information is widely distributed. These policies cultivate a culture of trust and enable employees to focus on the tasks at hand. Empowerment leads to increased confidence, productivity, contentment, and responsibility (Robertson). However, many of Netflix's policies create a culture of fear. Harsh and critical communication and a relentless pursuit of the perfect team are examples of how fear is manifested in the culture. While some view these activities as effective, many employees view them as demotivating.

While Netflix's policies are largely effective in cultivating trust and facilitating innovation, there are several potential disadvantages. First, there might be too much freedom and leniency in Netflix's policies. While autonomy enables employees to act with little supervision, it can lead to arrogance, confidentiality risks, ill-informed decision making, and deteriorated relationships (Robertson). The company-wide sharing of information can be detrimental to the firm's success because it can lead to confidential information being disseminated to the wrong people (Robertson). As an innovative organization, this can be damaging to the company's competitive advantage if competitors get their hands on this information (Robertson). In addition, fear-inducing policies can be disastrous for employee engagement, contentment, and performance (MacLellan). As one article suggested, "...it's impossible to see how Netflix's culture, as described, could be sustainable" (MacLellan).

Considering the advantages and disadvantages of a trusting and empowering company culture, many of Netflix's policies are appropriate and effective, including the emphasis it places on freedom, respect, collaboration, simplifying processes, and information sharing. Such policies empower employees to act, which fosters innovation. Other fear-based policies are motivating to some employees, who have praised the culture despite these factors (MacLellan).

3.11 Executive Bonus Compensation Plans

Netflix primarily uses stock options as its executive bonus compensation plan. This is an effective plan, as "...the executive receives a bonus only if the firm's share price appreciates. If the share price drops below the option price, the options become worthless" (Pearson). This is useful because it incentivises Netflix executives to create wealth for shareholders, thus helping the company succeed. However, only having this type of executive compensation plan can have its downfalls, as "movement in share price does not explain all dimensions of managerial performance" (Pearson). Nonetheless, as many of Netflix's strategic goals center around it growing financially, this executive compensation plan seems fitting.

3.12 Structure, Culture, Environment, and Leadership

Structure

Netflix's functional organizational structure facilitates effective strategy implementation because as a narrowly-focused company, Netflix benefits from having different groups focus on specific business tasks. Netflix's rapid growth and success call for increased support to handle the increase in sales (Pearce). Netflix's focus on innovation means the company needs highly-equipped and specialized employees to carry out its strategies, which a functional organizational structure has enabled Netflix to do. The autonomy Netflix gives its employees also contributes to successful strategy implementation. As a result, there have been many technological breakthroughs. These innovations include Python, a revolutionary development for the cloud environment, and Scryer, Netflix's "Predictive Auto-Scaling Engine" (Rapoport). These innovations were possible because engineers were encouraged to collaborate on projects. In fact, collaboration makes the typical organizational hierarchy "irrelevant" in many respects (Rapoport). In addition to autonomy, company-wide information sharing contributes to effective strategy implementation. Decision-making is not siloed at the top of the hierarchy; rather employees across the company have access to information, empowering them to make decisions (Brightline).

Culture and Environment

Netflix's informal yet highly competitive culture and environment facilitate effective strategy implementation. In all the company's activities, the leadership clearly communicates its expectations of responsible behavior. The trusting, open, and (sometimes brutally) honest culture, in conjunction with the ways in which it empowers its employees, make for an efficient, innovative organization. By empowering its employees, the company allows for new ideas to be shared (Kanowitz). An aspect of the company's culture and environment that is not in alignment with effective strategy implementation is the manner in which Netflix evaluates its employees. Netflix's fear-inducing tactics demotivate many employees and create an underlying culture of fear that undermines its empowering culture.

Leadership

Netflix has high standards for its leadership to help employees perform optimally. Managers are expected to be role models of company policies and values and are to reward proper behavior as it aligns with organizational objectives (McCord). Managers are also encouraged to tailor their strategies to different subgroups of employees. The leadership team also promotes collaboration and autonomy. This hands-off management style promotes freedom of thought and innovation, leading to many technological breakthroughs. Overall, Netflix's leadership strategies are a source of competitive advantage.

Overall, Netflix’s structure, culture, environment, and leadership practices work collectively to aid in strategy implementation. Not only that, but they empower employees to personally invest themselves in the company’s innovation.

3.13 Strategic Control

Netflix is using implementation control by “consistently working towards its strategic goals, while also adjusting in order to meet market trends and consumers’ needs” (Brightline). Flexibility is a weakness in the implementation of corporate strategy today (Brightline). Netflix is trying to avoid this weakness by integrating its management strategy with flexible incremental activities. Agility is the key to Netflix's success in the industry. This is a long-term enterprise strategy because long-term persistence of staying flexible should achieve greater results than other methods.

Netflix believes in its approach and it feels its success is dependent on flexible strategic control. It believes that only when employees are fully trusted can they have the courage and strength to make the best, most effective, and rapid decisions. Today, Netflix has more than 120 million subscribers, and is quickly approaching a $150 billion market cap (Brightline). “Netflix clearly believes that the positive press it gets around its wins is worth the marketing spend” (Natalie). In 2019, Netflix decided to use last year's market experience to develop this year's market strategy. “Netflix feels that companies need to focus more on promoting TV shows and movies” (Natalie). In its mind, that is what the market needs and will respond to with greater spend. The use of the company's brand and system is already very familiar to consumers (Natalie). It is not only the trust that greatly improves the working enthusiasm of employees but also the fact that the company succeeds (Brightline). In this way, every employee can not only feel trusted, but also have that sense of responsibility as a company owner and teammate. Then they can make greater contributions and offer strategies to the company.

Another operational control of the key success factors is Netflix's "unlimited vacation" policy. This policy is based upon the "no workday 9 a.m. - 5 p.m. policy" (Brightline). Netflix believes that the quality of one's work is not determined by the number of days one works. The quality of work matters more to Netflix than the length. Based on this notion, the company gives employees more freedom to decide the timing and length of their vacations.

3.13 Innovation and Entrepreneurship

Netflix employs a disruptive innovation type that has four main ideas: think big, start small, fail quickly, and scale fast (Mui). Netflix has utilized innovations to stay competitive since its establishment. The first time that Netflix used this innovation model was when it shifted from DVD mailing to streaming. After this successful shift, it started creating its own content, further differentiating itself from competitors. Once Netflix found something that made it successful, it stuck to it and further innovated and focused on being a disruptive entrepreneur (Stern). Netflix's aggressiveness towards beating its competitors drove Blockbuster out of business by offering great streaming rates and the removal of late fees. Netflix is reportedly looking into buying television rights to continue disrupting the industry, this time focusing on monthly television subscriptions such as cable (Mui). Netflix has shown time and time again that it is fearless in attacking established businesses to better serve its customers. Netflix has become a household name. Its strategy is successful because, according to *Tech Crunch*, there are over 75% of U.S.

households that have Netflix subscriptions ("Netflix: An Indepth..."). In 2018, Netflix reported its net income of $1.21 billion, which is more than double its net income in 2017 (NFLX).

Section 4: Recommendations

4.1 External Environment - Opportunities and Threats

The external environment analysis revealed that Netflix needs to continue its customer-focused approach, which includes customization and personal suggestions for each user. Netflix needs to continue this since the majority of its providers are now turning into competitors and the customization is a main reason consumers prefer Netflix. Opportunities that are important and should be taken into consideration include the development of 5G internet, which would greatly improve streaming and lead to a unique experience for consumers. Netflix has already taken a step in this direction by using interactive technology. Overall, the biggest threat in the external environment is providers turning into competitors, and many of them are pulling their content from Netflix so it can be provided in their own services. This means that Netflix needs to adapt, creating more of its own content and partnering with other providers who do not want to become a platform themselves. If these measures are taken, Netflix could continue to hold the majority of the market share in the industry.

4.2 Strengths and Weaknesses

Netflix has been the leading video streaming provider, with its award-winning original content and popular shows and movies. It has been able to expand into over 190 countries, which gives it an advantage over its competitors. CEO Reed Hastings has continued to implement a strong culture of excellence and innovation, guiding Netflix to success with technology such as its content delivery network. Netflix's weaknesses include a growing amount of debt and a dependence on service providers. The company has expressly stated that it only wants to keep the top talent on its "dream team," and with that comes continuous and involuntary employee turnover, costing the company money. The hiring and training processes cost the company money too, as well as the generous four-month severance pay given to all employees who have been let go. Purchasing programming licenses has had a large toll on Netflix's debt accumulation in addition to hefty expenditures for advertising new content. Another one of Netflix's weaknesses is its reliance on competing companies for data storage. In order for Netflix to be as large as it is today and to be able to distribute its content at a low price, it had to abandon its own physical servers, and the maintenance and infrastructure that came along with that, and switch to Amazon Web Services (AWS) cloud storage for its ever-growing content database.

4.3 Organizational Mission

Netflix does not have an officially published mission statement. The closest the company has to a mission statement is its vision, which includes the following: becoming the best global entertainment distribution service, licensing entertainment content around the world, creating markets that are accessible to filmmakers, and helping content creators around the world to find a global audience. Our recommendation is for Netflix to more clearly define its mission statement and to publish it online so that it is accessible to consumers. Our recommendation for Netflix's mission statement is as follows: "We strive to be the best global entertainment distribution service for all of our customers, investors, and partners." We feel that the mission statement is appropriate because Netflix has already expanded into over 190 countries and is actively working to provide accessible markets to its customers, investors, and partners.

4.4 Generic Strategy

Netflix's current strategy of broad differentiation has been successful. With the proven success, our recommendation is for the company to continue the implementation of broad differentiation with cost advantage where possible. Netflix possesses the skills and resources and meets the organizational requirements needed to support and sustain the company's current strategies. By continuing to expand its original content, offering wide selections for diverse tastes, and using data-mining, Netflix can maintain a competitive advantage by continuing to execute the necessary capabilities to implement these strategies efficiently.

In order to implement these strategies and keep up with the production of original content, Netflix needs to continue to secure access to capital. With the company being in debt, we recommend maintaining its relationships with investors. Netflix is always striving for improvement, but we recommend sticking to the basics to manage and reduce its debt. The company needs to maintain its successful, user-friendly, and ad-free platform that provides recommendations to users. This makes online streaming simple compared to its competitors. This approach to differentiation will aid in the continued appeal of Netflix to its subscribers.

4.5 Long-term Objectives

Profitability and Productivity:

In order for Netflix to achieve a higher level of profitability, it will need to lower its expenses, specifically its expenditures on content. Netflix spends too much money trying to keep content that its users have grown to expect. By increasing the amount of original content it produces, Netflix will be able to achieve economies of scale, which will spread its fixed costs over a larger number of units, which in turn will lower the cost of each additional unit. We recommend setting a goal to achieve economies of scale by 2022. It is hard to tell exactly what number of new series or movies would help Netflix to achieve economies of scale, because the numbers that are available to the public vary so widely, so we used an estimate for this purpose. Achieving economies of scale with original content "reduces [Netflix's] dependency to studios somewhat and this could lead to a shift of powers within the wider industry ([especially] if others, like Amazon, continue creating their own originals as well). Original content helps to build [Netflix's] brand and avoids [it] being a pure content distribution company. It increases the barriers of entry for new entrants" (Uenlue).

In this case, profitability and productivity are intertwined, especially with regards to economies of scale. In order to become profitable, Netflix must also improve productivity. In order to improve profitability and productivity, we recommend that Netflix produces at least 10-15 new series per year. If Netflix were to achieve this recommended goal, it would improve its productivity at the same time as its profitability. Achieving economies of scale is relative to each business based on their fixed costs and how many units they produce, by which the fixed costs can be divided, making it less expensive to produce a larger number of units.

Competitive Position

Netflix differentiates itself from its competitors by offering a simplistic and accessible platform for its content, which includes features to easily sort through the vast content offerings. By keeping it user-friendly, Netflix is able to attract a wider consumer base. Its pursuit of international markets is aided by this platform, as is the offering of subtitles in foreign languages. We recommend that Netflix further increases its subtitle offerings to include more of the dialects spoken in other parts of Asia, where Netflix is currently focusing on expanding.

Employee Development

Employees who perform at a satisfactory level rather than at an outstanding level are let go and given a large severance package ("Netflix Jobs"). Netflix believes if an employee only performs at a "adequate" level, they can and will be replaced by a higher-performing employee. To achieve long-term prosperity, Netflix needs to provide education and training to these employees over the next 3 years in order to improve their performance. We recommend Netflix sets a goal to reduce the amount offered in its large severance packages by 50%, and offer education and training as a replacement for firing people too quickly by 2022.

Employee Relations

Netflix's mission, vision, culture, and expectations are communicated in its employee handbook. Employees know what is expected of them and are aware that Netflix only retains top performers. To boost morale, we recommend Netflix holds an Employee Appreciation Day once a year. The event can be held at a park for a picnic, mini-golf, bowling, or any additional team-building activities. Employee reviews will take place during the same week, where they will receive feedback on areas that they are performing well in and areas where improvement needs to be seen. We suggest this gets implemented immediately and is held every year moving forward. This will strengthen company culture and reduce the fear of termination.

Technological Leadership

Netflix seems to have a very good handle on its strengths and weaknesses with regard to technological leadership. We recommend that it continues producing its own original content. If it can improve its interactive technologies, Netflix should increase the amount of original content that incorporates this, since it was the first streaming platform to use it and is still the only one who has interactive content.

Public Responsibility

Netflix is very committed to helping the environment by reducing and renewing energy. In order to gain a competitive advantage, we recommend Netflix joins more renewable energy and carbon offset projects. Netflix currently has projects in 23 states and 16 countries ("Netflix Media"). We recommend Netflix teams up with renewable energy projects in 5 additional states and 2 additional countries by 2022. To be more sustainable in their corporate setting, we recommend Netflix cuts down the usage of single-use plastics by 20% by 2022.

4.6 Grand Strategy

Because Netflix is considered a stable company, we believe that they can achieve the long-term strategies we have recommended by pursuing concentrated growth and market development (Uenlue).

Concentrated growth will allow Netflix to focus on original content development and improving the company's image and competitive position in the market. A concentrated growth strategy will allow Netflix to expand its original content in its current market segments without attempting to add too many features to keep current customers. With the increase of competition via licensed content, Netflix must double down on the way it has chosen to differentiate itself from competitors by offering more original content. After all, a favorable environment for concentrated growth is one in which the market is not yet fully saturated (Pearce).

Market development will help Netflix appeal to its newer market segments with the different formats it has been testing, such as mobile versions. By focusing on improving and expanding into markets that prefer to watch TV on their phones, Netflix can increase subscription sales and grow its profits simultaneously. Between international expansion and offering other product versions or formats to new and emerging markets, Netflix seems to have a complete handle on market development in order to increase subscriptions.

Grand Strategies for each Long-term Strategy:

- Productivity and Profitability: Vertical acquisition/Concentrated growth
- Competitive Position: Product development/Innovation
- Employee Development: Turnaround (Cost Reduction)

- Employee Relations: Turnaround
- Technological Leadership: Concentrated growth/Product Development
- Public Responsibility: Strategic Alliances

4.7 Short-term Objectives and Action Plans

Generic Strategy: Broad Differentiation with Cost Advantage where possible					
Long-Term Objective	**Grand Strategy**	**Short-Term Objective**	**Action Plan**		
			Functional Activities	**Timeline**	**Responsible Party**
Profitability and Productivity	Vertical Acquisition/ Concentrated Growth	- Produce 10-15 original series or movies - Delete 15% of the least-watched non-original content	- Storyboarding and new product development process - Filming, editing - Analysis of least-watched content	6/1/2019 - 6/1/2020	- Producers - Chief Content Officer Ted Sarandos
Competitive Position	Product Development/ Innovation	Introduce 3 new subtitle language offerings	Translate licensed and original content	6/1/2019 - 6/1/2021	- Preferred Vendors and Quality Control
Employee Development	Turnaround (Cost Reduction)	- Reduce severance packages by 20% and put money into training instead - Create 2-month severance packages instead of 4-month	- Develop new severance package design - Design and implement new training programs	5/1/2019 - 12/31/2019	- Board of Directors (severance packages) - Management (training)
Employee Relations	Turnaround	- Implement annual Employee Appreciation Day and employee reviews	- Create itinerary and plans for the event - Design employee	5/1/2019 - 10/31/2019	- Managers

			evaluation process and create review criteria		
Technological Leadership	Concentrated Growth/ Product Development	- Produce 5 new interactive movies (like *Black Mirror: Bandersnatch*)	- Product development process for story ideas and planning - Filming, editing, testing, advertising	7/1/2019 - 7/1/2020	- Chief Content Officer Ted Sarandos - Producers
Social Responsibility	Strategic Alliances	- Team up with renewable energy projects in 3 additional states - Cut down use of single-use plastics by 10%	- Research projects and contact and connect with them - Research plastic alternatives and create company usage guidelines	5/1/2019 - 12/31/2019	- Board of Directors

4.8 Policies and Strategic Execution

Netflix has many policies that empower action, encourage freedom and innovation, and facilitate strategy execution, including flexible hours policies, encouraging collaboration, minimizing complexity, simplifying processes, and information sharing. Nonetheless, many of Netflix's policies cultivate a cutthroat culture, causing employees to operate in a state of fear of being fired (MacLellan). After analyzing Netflix's policies, we recommend the following policies be implemented or modified to better aid strategy execution:

1) Continue encouraging freedom of collaboration between employees.

Netflix encourages its employees to collaborate to share innovative ideas. This policy has enabled technological advances, including Python and Scryer (Rapoport). By giving employees autonomy to develop their ideas, Netflix is facilitating innovative breakthroughs, which are imperative in the industry. We recommend Netflix continue encouraging collaboration across the company so that it benefits from innovative ideas.

2) Encourage employees to share their expertise.

Netflix should be leveraging its employees' expertise. IBM has "social computing policies" that guide how employees should conduct themselves when contributing to their online communities (Pearce). These guidelines clarify that any opinions presented do not reflect those of IBM (Pearce). Netflix should adopt a similar policy because it would encourage employees to leverage their expertise in their respective industries. By encouraging employees to actively participate in the online community, they are building a brand reputation for Netflix, all while staying in line with Netflix's overall brand strategy.

3) Revamp employee assessment policies like "sunshining," the "keeper test," and "postmortem" feedback.

While some of Netflix's transparent policies encourage innovation and boost employee performance, not all of its policies contribute to a positive culture. Policies like "sunshining," the "keeper test," and "postmortem" feedback contribute to a culture of fear, which is detrimental to the culture of trust that Netflix works to sustain. If Netflix wants to revolutionize the industry by empowering employees, it must rethink these fear-inducing policies. Cultivating an environment of suspicion, gossip, and fear will have devastating effects on the culture.

4.9 Executive Bonus Compensation Plans

Currently, Netflix is tying its executives' compensation to share price. This can create negative incentives for executives, as they might artificially inflate the stock price. Higher share prices might be beneficial in the short-term, but it might come at the expense of long-term growth. We recommend Netflix offers executives a base salary plus base bonus plus percentage on net revenue. The percentage on net revenue could be on a sliding scale based on the net revenue. Below is an example of our recommendation for the executive compensation plan:

(Base Salary + Base Bonus + % Net Revenue)

$500,000 + $10,000,000 + 3% on net revenue on $0 to $1,000,000,000 or

$500,000 + $10,000,000 + 5% on net revenue on $1,000,000,001 to $5,000,000,000 or

$500,000 + $10,000,000 + 8% on net revenue on $5,000,000,001 to $10,000,000,000.

This is a beneficial way to get buy-in from the executives because they would earn more money when the business is performing well. It would also incentivize them to care more about the company's long-term performance.

4.10 Strategy Implementation

Structure:

Netflix's current structure has helped it successfully implement its strategies. As Netflix continues to expand into new markets and experiment with new, innovative technologies, the functional organizational structure will quickly become outdated and inefficient in sustaining growth (Pearce). “When a firm diversifies its product/service lines, covers broad geographic areas...or begins to serve heterogeneous customer groups,” companies transition to a divisional structure (Pearce). We recommend that Netflix immediately begins shifting to a divisional structure, as it is currently in the aforementioned situation. We recommend that this transition be completed by December 2019 in order to increase operational efficiencies and to better manage its growing, global operations.

Culture and Environment

Netflix’s culture and environment empower employees to focus on strategy execution, but certain elements of the culture are actively undermining the positive ones. Policies like the “keeper test” contribute to a culture of fear, distrust, and gossip (MacLellan). Not everyone is motivated by fear, and to encourage procedures that put immense pressure on employees is to thwart the trusting culture. After analyzing Netflix’s culture, we conclude that it should continue to encourage collaboration and empower its employees. We advise Netflix to remove or revamp its fear-inducing procedures like the “keeper test,” as such policies demotivate employees. By modifying these negative tactics, Netflix can better empower its employees, which in turn facilitates effective strategy implementation.

Leadership

Netflix’s leadership encourages employees down the chain of command to develop their innovative concepts and allows them to be involved in decision-making. Netflix’s management is also expected to tailor its strategies for different groups of employees (McCord). By doing these things, managers are better equipped to meet employees' distinct needs and provide better support. After analyzing Netflix's leadership practices, we advise that no alterations are necessary, except those that are in-line with removing or modifying fear-inducing policies. When the leadership no longer supports such policies, Netflix's culture will drastically improve and it will see increased efficiency in strategy implementation.

4.11 Strategic and Operational Controls

Large companies like Netflix must keep growing. It needs new subscribers to join to keep it in a healthy competitive position. Netflix uses its existing advantages to continuously develop new products, so as to pursue novelty and stand out from other competitors in the industry.

Netflix has "added an impressive $8.84 million [in] net new paying customers for its streaming service globally in the fourth quarter. Netflix now has 139 million people around the world paying to beam TV shows and movies to their homes and smartphones" (Shira). Netflix has developed its vision of entertainment and practices its own uniqueness in international and domestic markets. The methods Netflix uses to control markets include both environmental factors and industry factors. This is primarily concerned with premise control that is designed to check the company systematically.

The fierce competition in today's market calls for increased efficiency and to save costs when possible to deliver a superior product. This is a difficult task that Netflix is facing. At this stage, the company is striving to develop different products to suit the different needs of users. "The market is growing fast enough for multiple companies to do well, but stronger competition for viewers' attention and programming will drive up Netflix's costs and potentially peel off some subscribers” (Shira). In the context of market competition, the company seeks new and greater customer penetration to strengthen its long-term competitiveness. This strategic plan is to gather and focus on the company's existing resources to build sustained competitive advantages.

Based on the distribution of existing international users, Netflix should continue to implement a global differentiation strategy so that it can be distributed globally, which is more conducive to the development of international markets and stable development of the company. Netflix can pay more attention to the different customs, historical and cultural differences in each market, and set and develop the multidomestic industry supply to meet the needs of customers in different countries and regions for long-term growth. By implementing this strategy, Netflix’s costs will be relatively high compared to previous operating costs, and its profit will decrease in the short term, but in order to achieve long-term growth, this is a necessary investment.

Competitive prices and dedication to customer service will give the company a positive reputation and strong core competitiveness. We suggest that the company’s development strategy should continue to strengthen this critical area. “Outside the U.S., Netflix has strong local competition in some countries, and it is trying unusual experiments such as lower-cost pricing to win over people in India, Malaysia, and other large countries where Netflix might not be an obvious choice” (Shira). Based on the distribution of existing international subscribers, we believe that the company should continue to implement its global differentiation strategy so that users can continue to be distributed globally. This is more conducive to the development of the international market and the stable development of the company.

4.12 Innovation and Entrepreneurship

We recommend that Netflix continue its innovation system to “think big, start small, fail quickly and scale fast” (Mui). With the immense competition that Netflix is currently facing, continuing to have these guiding innovative principles will aid the company in creating content and systems that counteract the industry as they did with Blockbuster. Instead of shying away from competition, Netflix should embrace it as a challenge and continue to fight to be an industry leader. This way, the company can fight against compliance and ensure that everyone in the company is focused on innovation. Therefore, the main recommendation we have is to continue to pursue these systems and the innovative culture it has in place. We recommend Netflix keeps and promotes its disruptive entrepreneurial spirit. This is one of the major reasons that Netflix has succeeded thus far. This approach has worked before, and consistency will aid Netflix in ensuring it is always prepared for competition.

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